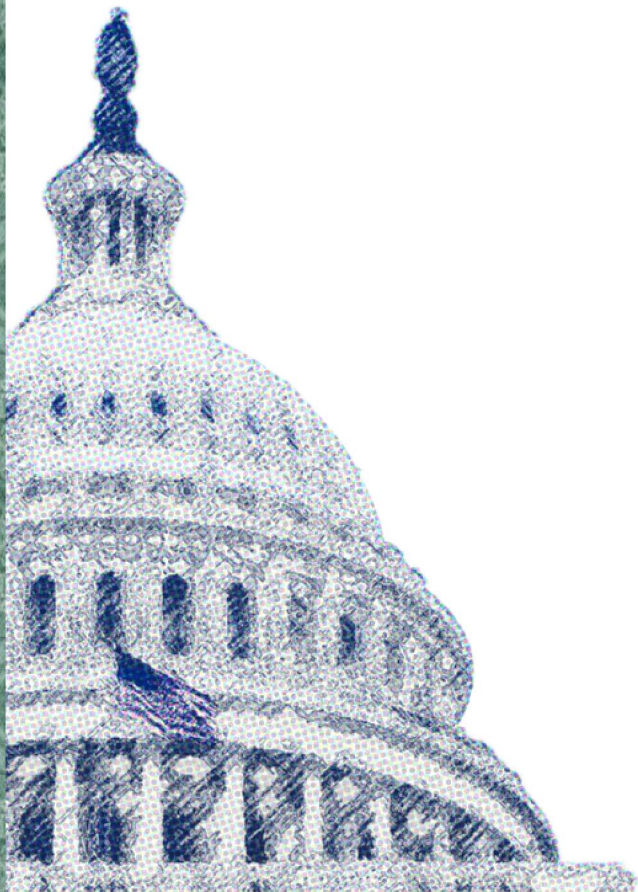


109th Congress
1st Session



Senate Budget Committee November Recess Packet



November 18, 2005
Prepared by the
Senate Budget Committee
budget.senate.gov/republican

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United States Senate

COMMITTEE ON THE BUDGET

WASHINGTON, DC 20510-6100

November 18, 2005

Dear Republican Colleague:

As you prepare to head home for the Thanksgiving recess, I want to share with you the latest information on the budget, the deficit and the budget reconciliation process.

On November 3rd, the Senate passed the Deficit Reduction Act - the first deficit reduction package in nearly a decade. It contains net savings of nearly \$35 billion over five years, and takes steps to assist low-income students, patients and families. The bill is a significant step in the right direction toward reducing the deficit and curbing out-of-control mandatory spending programs, and is a key component of keeping our economy strong and growing.

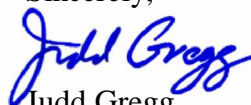
Fiscal discipline is now more important than ever, in light of the Gulf Coast hurricane devastation that has had a sudden and dramatic impact on federal spending. The total five-year cost of hurricane-related relief enacted into law or passed by the Senate currently equals nearly \$100 billion, and approximately \$260 billion in additional spending has been proposed.

In addition to the Deficit Reduction Act, this week's passage of the Tax Relief Act is another sign that the budget process is working as intended in the Senate. These accomplishments have come in the face of significant opposition, but are the necessary and fiscally responsible steps that must be taken to put this country back on the right track.

The Senate's actions will help to ensure that future generations will enjoy the same economic security that we do. I look forward to working with my colleagues in the House of Representatives to enact a final deficit reduction bill - it is probably the most important legislation that we will consider this year.

If you have any questions regarding the information in this packet, or would like additional information on any of the topics covered, please contact my communications staff at 202-224-6011.

Sincerely,



Judd Gregg
Chairman

Deficit Reduction Must Be a Priority

On November 3rd, the Senate passed the Deficit Reduction Act, which contains net savings and deficit reduction of nearly \$35 billion over five years (2006-2010). The House passed its version of the deficit reduction bill on November 18th.

“The driving force behind this effort is the federal deficit and the out-of-control spending that is pushing it increasingly higher. This bill takes fiscally responsible steps to reduce the deficit, reduce spending that is on autopilot, and strengthen our economy. The bill also re-prioritizes some existing spending in order to provide better education and health care programs for low-income individuals and families. It is the first deficit reduction package in nearly a decade, and probably the most important legislation to be considered this year.”

-- Senate Budget Committee Chairman Judd Gregg

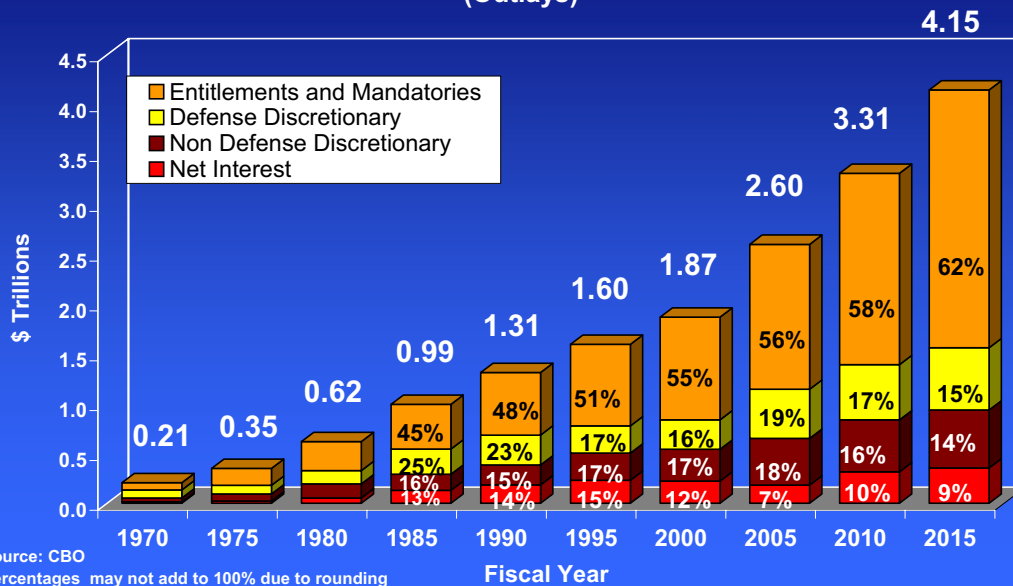
- Ø **The current deficit situation is unsustainable:** End-of-the-year budget results from the U.S. Treasury show that the FY 2005 deficit was \$319 billion. While that is down from previous expectations due to a strong increase in individual and corporate tax receipts, it is still too high. We are on an unsustainable path that will jeopardize the economic stability of future generations.
- Ø **Spending is the problem:** We are spending a lot more than we are taking in, despite the fact that our tax receipts are growing stronger. If allowed to continue, that will put a serious strain on our economy down the road. Mandatory spending is the biggest problem; these programs simply grow year after year on automatic pilot with no regular review by Congress. Automatic spending, excluding interest on the debt, now represents 56 percent of all federal spending. Left unchecked, that will grow to more than 62 percent in 10 years. Accelerating spending in the largest entitlement programs is on the verge of overwhelming our economy's ability to pay for those benefits as the Baby Boom generation begins to retire in 2008. We must find a way to slow the rate of growth of automatic spending to a level that is sustainable, given that the ratio of retirees to workers will be higher than ever before as the Baby Boom retires.
- Ø **The Deficit Reduction Act is a step in the right direction:** Under the 2006 Budget Resolution, the federal government is estimated to spend \$13.8 trillion over the next five years. The Senate-passed Deficit Reduction Act would reduce the growth of spending by nearly \$35 billion over that time period, which is less than 0.3 percent of total federal spending. Many would argue that is not enough, considering that the last three enacted reconciliation bills in the 1990s included 2-3 times the amount of savings: in constant 2005 dollars, the 1990 bill reduced the growth of mandatory spending by \$100 billion, the 1993 bill reduced growth by \$96 billion, and the 1997 bill reduced growth by \$118 billion, all over a five-year period. More needs to be done to reduce the deficit and control spending, but the Deficit Reduction Act is a step in the right direction.
- Ø **The Act re-prioritizes spending to benefit more Americans:** The Senate-passed bill reduces bank and education lender subsidies and profits by \$21 billion, invests \$14 billion of the related savings into programs that assist low- and

- middle-income college students, assists K-12 public schools and families with children in K-12 private schools who were displaced by Hurricane Katrina, and reduces the deficit by \$7 billion. The bill helps to shore up the pension insurance system so that promises made to retirees are promises kept, and promotes U.S. energy independence so we can avoid costly domestic production disruptions and lessen our dependence on foreign oil.
- Ø **The Act strengthens the Medicaid and Medicare programs:** The Senate-passed bill reduces the growth of the programs by \$29 billion over five years by more accurately calculating reimbursements to pharmacies and drug manufacturers, reducing waste and fraud, and clarifying Medicare reimbursement policies for insurance companies. It then reduces the deficit by \$9.3 billion and uses the remaining \$20 billion to strengthen and improve Medicaid and Medicare services. (Medicaid growth is being reduced by 0.7% over 5 yrs; Medicare growth is reduced by 1.0%)
 - Ø **Fiscal discipline needed to keep the U.S. economy strong and growing:** Despite some serious economic set-backs such as Sept. 11th, a recession, and a significant correction in the stock market, the U.S. economy has managed to stay resilient as the President and Congress have worked to enact sound economic policies and lessen the tax burden on families and businesses. That has created 4.2 million jobs since May 2003 and generated a 14.6 percent increase in tax receipts this past fiscal year. Long-term interest rates are relatively low and homeownership is at an all-time high.
 - Ø **Future generations depend on Congress taking action now:** We all want today's economic benefits to continue for future generations. But to make that happen, we need to control spending and reduce the deficit, while allowing Americans to keep and invest more of what they earn so that the economy can continue to expand and grow.

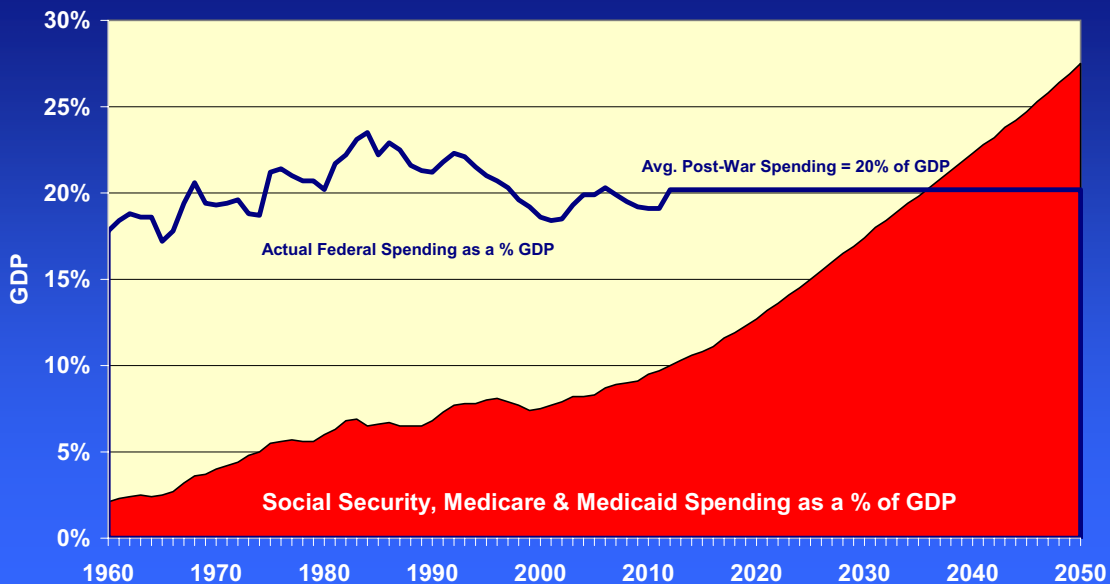
The Bottom Line:

- ✓ **The current federal deficit is too high, and out-of-control mandatory spending is threatening the economic security of future generations.**
- ✓ **The Senate-passed Deficit Reduction Act, while reducing spending and the deficit, also benefits low-income students, patients and families.**
- ✓ **Senate Republicans have worked hard to achieve fiscally responsible savings and reduce the deficit – passing the 2006 Budget Resolution that puts the government on track to halve the deficit by 2009 and approving the Deficit Reduction Act.**
- ✓ **To keep the U.S. economy strong and growing, the time to act on deficit reduction and curbing out-of-control mandatory spending is now.**

MAJOR COMPONENTS OF THE BUDGET (Outlays)



Mandatory Spending Grows Higher Than One Fourth of the Economy



GROWTH OF GOVERNMENT EXCEEDS GROWTH OF ECONOMY



Cost of Legislative Response to Domestic Emergencies (\$ in billions, constant 2005 dollars)

